

CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

SESSION THREE.

PART 1-PUBLIC INVESTMENT PLANNING: CODES & LEGAL INVESTMENTS- CURRENT AND FUTURE

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WEDNESDAY, MARCH 12, 2014

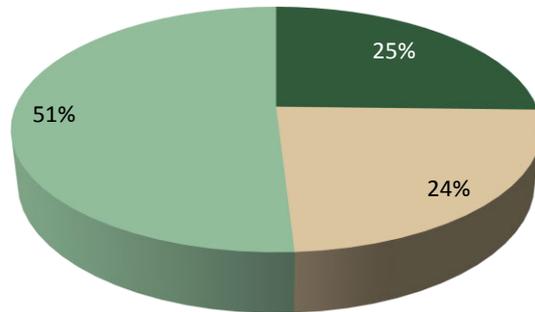
Introduction



Market Overview – Agency Sector has Contracted

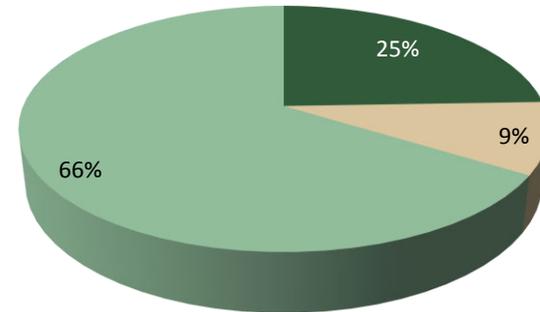
December 31, 2006

■ Credit 1-5 yrs A-AAA ■ Agencies 1-5 yrs ■ US Treasury 1-5 yrs



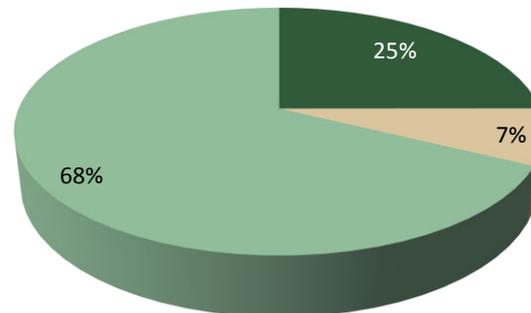
December 31, 2012

■ Credit 1-5 yrs A-AAA ■ Agencies 1-5 yrs ■ US Treasury 1-5 yrs



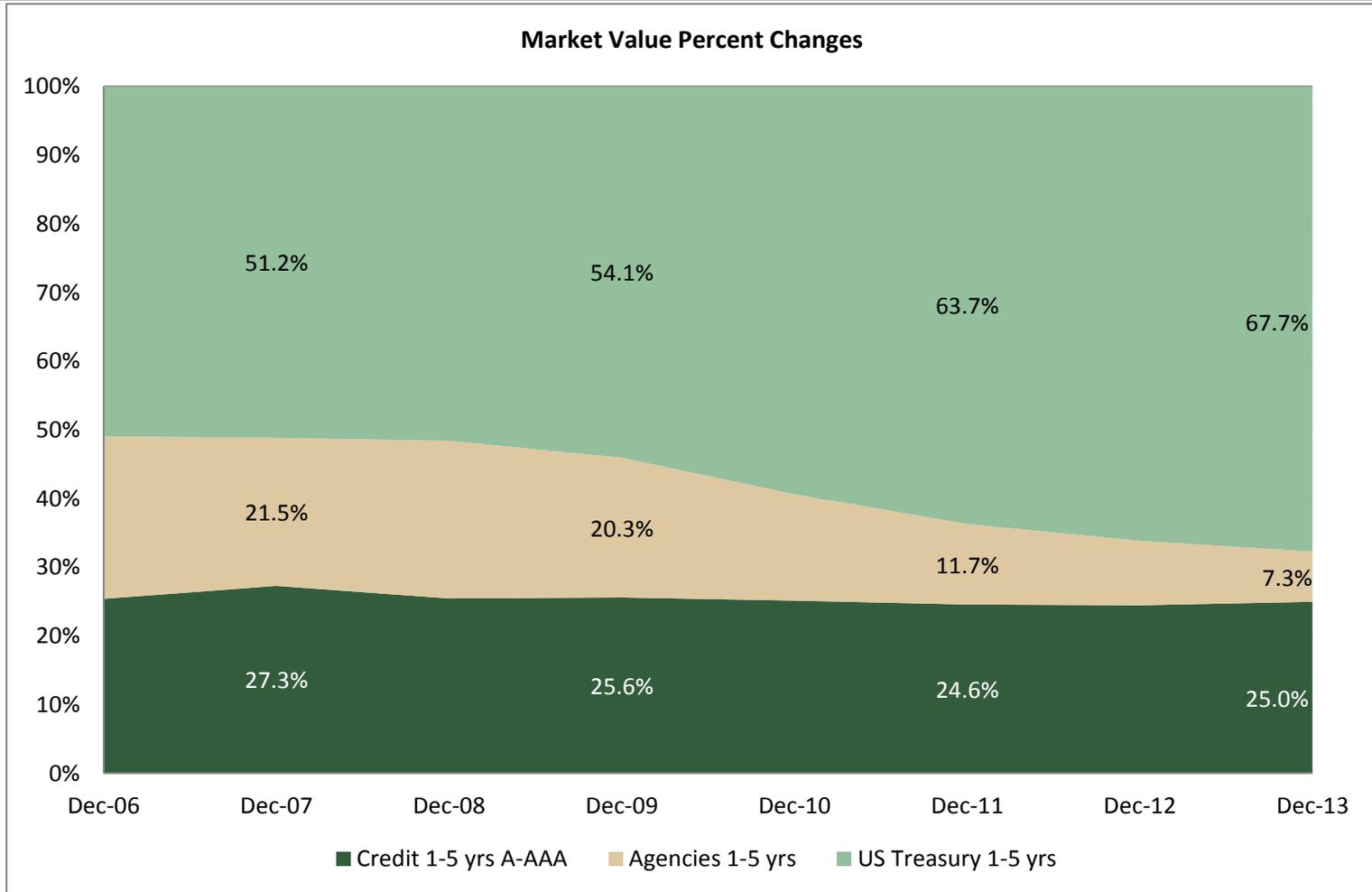
December 31, 2013

■ Credit 1-5 yrs A-AAA ■ Agencies 1-5 yrs ■ US Treasury 1-5 yrs



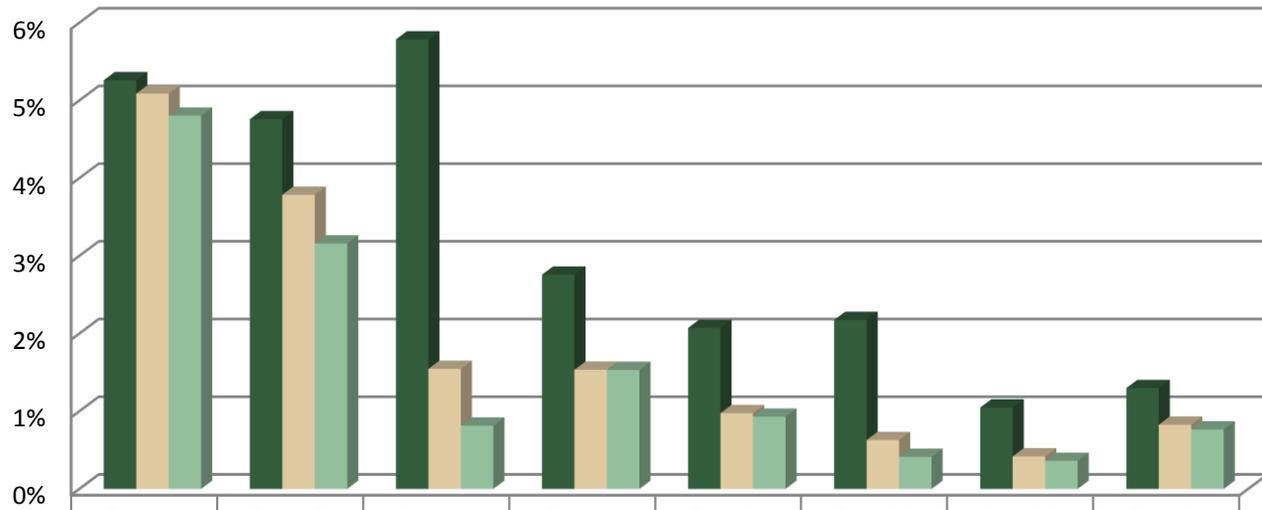
Market Overview – Treasury Sector

Growing Relative



Market Overview: Yield Differentials Amongst Sectors

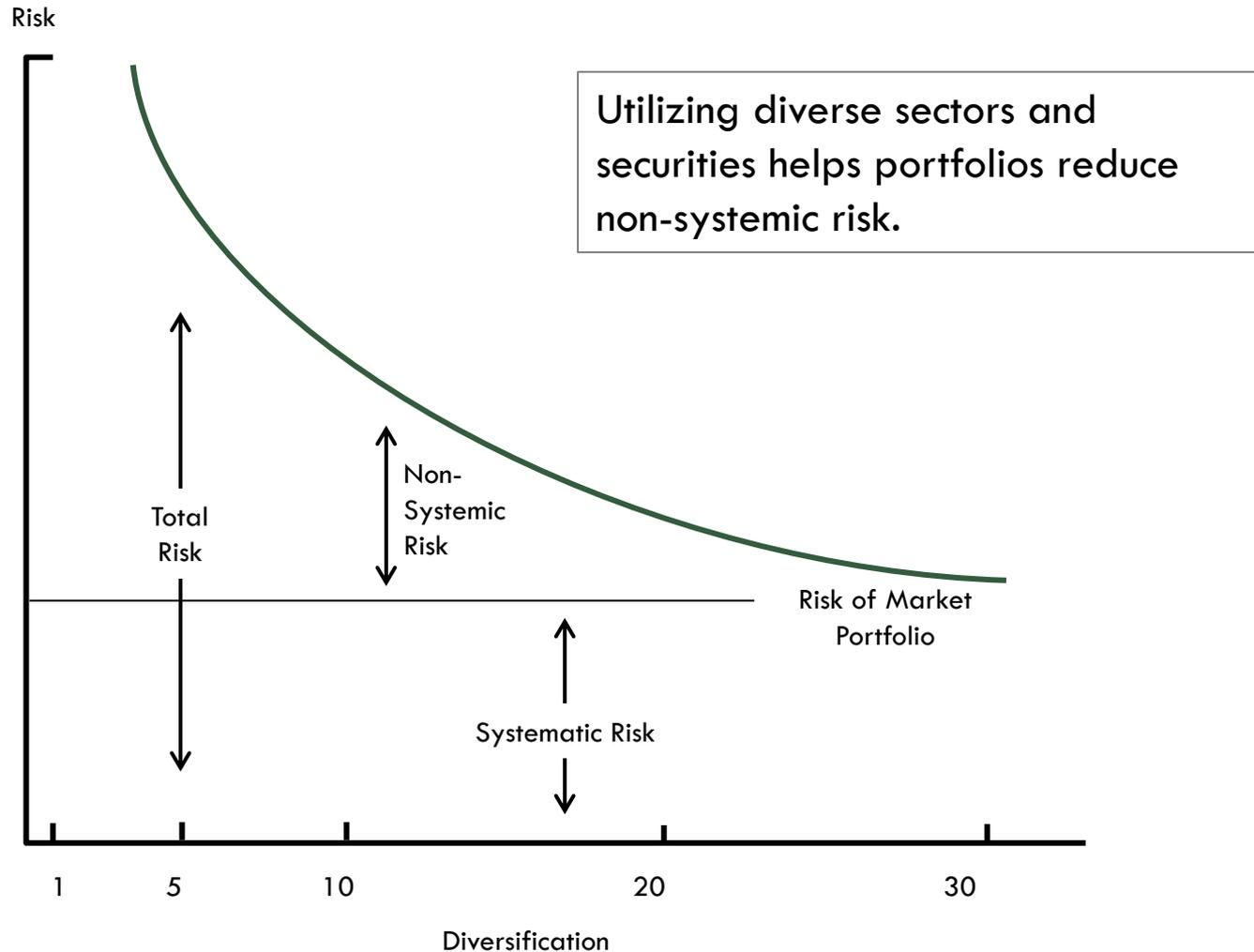
Historical Yields of Sector Components



	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
■ Credit 1-5 yrs A-AAA	5.26	4.76	5.78	2.76	2.07	2.17	1.05	1.30
■ Agencies 1-5 yrs	5.09	3.79	1.54	1.53	0.97	0.63	0.42	0.83
■ US Treasury 1-5 yrs	4.80	3.16	0.81	1.53	0.93	0.41	0.36	0.76



Reducing Risk Through Diversification



Asset classes allowable under Code 53601

- The format will follow the LAIG Table in the next slide that has been updated for 2014. CDIAC's 2014 LAIG publication is in its final stages. For informational purposes, you can access the 2013 [LAIG](#)

LAIG Allowable Investment Table

INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations — CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper— Select Agencies	270 days	25% of the agency's money	"A-1" If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers.
Commercial Paper— Other Agencies	270 days	40% of the agency's money	"A-1" If the issuer has issued long-term debt it, must be rated "A" without regard to modifiers.
Negotiable Certificates of Deposit	5 years	30% (Combined with CD Placement Service)	None
CD Placement Service	5 years	30% (Combined with Negotiable Certificates of Deposit)	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None
Medium-Term Notes	5 years	30%	"A" Rating
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None

Local Agency Bonds

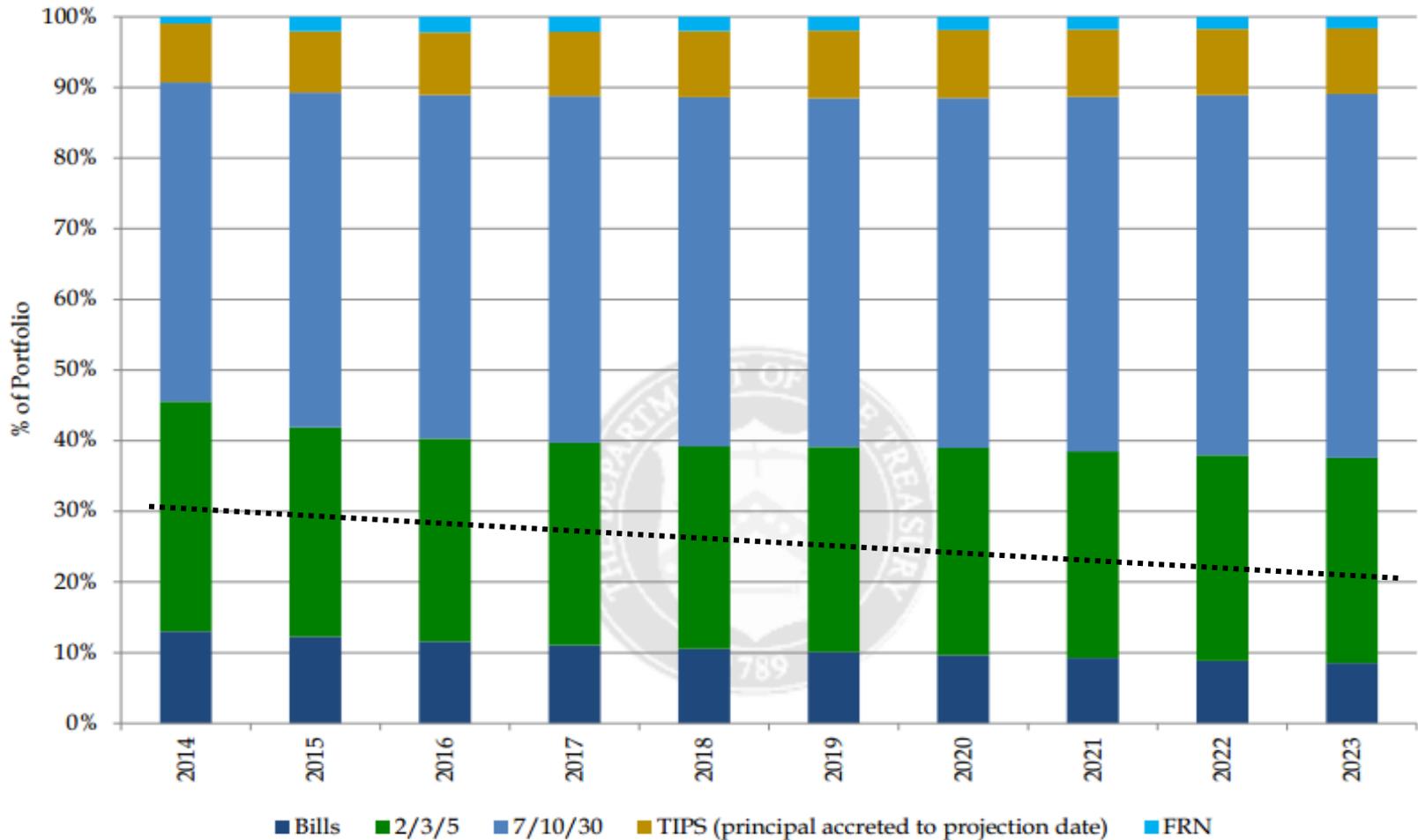
- (a) Bonds issued by the local agency including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- **If buying your own debt, consider a possible conflict of interest: As an issuer, your goal is getting the lowest possible yield; as an investor of general funds, your goal is getting the highest possible yield. Backup your decision with documentation.**

U.S. Treasury Obligations

- (b) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- The US Treasury began issuing Floating Rate Notes (FRNs) for the 1st time in January 2014. These are 2y notes with quarterly payments based on the 3-month treasury bill rate plus or minus a small spread. **Money funds have been big buyers;** they expect the 3 month bill rate to rise quite sharply in the next couple of years.

Treasury: Less Short Maturity Paper

Projected Portfolio Composition by Issuance Type, Percent



Source: US Tre



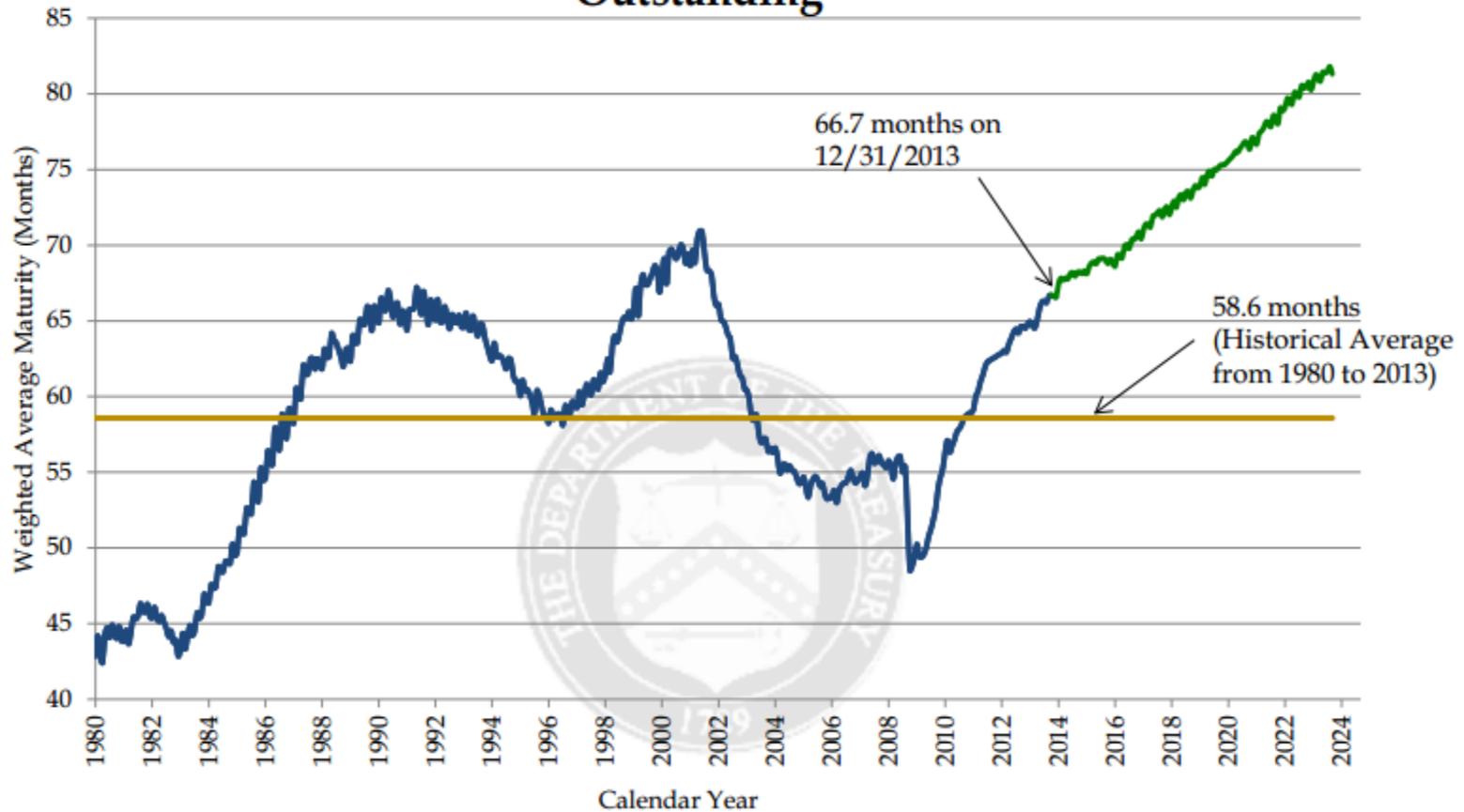
Treasury: Less Short Maturity Paper

Recent and Projected Portfolio Composition by Issuance Type, Percent

End of Fiscal Year	Bills	2-, 3-, 5-Year Nominal Coupons	7-, 10-, 30-Year Nominal Coupons	Total Nominal Coupons	TIPS (principal accreted to projection date)	FRN
2006	21.3%	40.5%	29.0%	69.5%	9.2%	0.0%
2007	21.6%	38.9%	29.2%	68.1%	10.3%	0.0%
2008	28.5%	34.5%	26.9%	61.4%	10.0%	0.0%
2009	28.5%	36.2%	27.4%	63.6%	7.9%	0.0%
2010	21.1%	40.1%	31.8%	71.9%	7.0%	0.0%
2011	15.4%	41.4%	35.9%	77.3%	7.3%	0.0%
2012	15.0%	38.4%	39.0%	77.4%	7.5%	0.0%
2013	13.2%	35.8%	43.0%	78.7%	8.1%	0.0%
2014	13.0%	32.5%	45.2%	77.7%	8.3%	0.9%
2015	12.3%	29.7%	47.4%	77.0%	8.6%	2.1%
2016	11.6%	28.7%	48.6%	77.3%	8.8%	2.2%
2017	11.0%	28.7%	49.1%	77.7%	9.1%	2.1%
2018	10.6%	28.6%	49.4%	78.1%	9.3%	2.0%
2019	10.1%	29.0%	49.4%	78.4%	9.6%	1.9%
2020	9.6%	29.3%	49.6%	78.9%	9.6%	1.8%
2021	9.2%	29.2%	50.2%	79.5%	9.5%	1.8%
2022	8.9%	29.1%	50.9%	80.1%	9.4%	1.7%
2023	8.5%	29.0%	51.5%	80.6%	9.3%	1.6%

Treasury: Less Short Maturity Paper

Weighted Average Maturity of Marketable Debt Outstanding



Source: US Treasury

— Historical Average from 1980 to 2013 — Historical — Adjust Nominal Coupons to Match Financing Needs



State Obligations-CA

- (c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

- CA State GO Bond Ratings:
 - Fitch: A
 - Moody's A1
 - Standard & Poor's: A

State Obligations-Other States

- (d) Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.
- Due diligence is paramount.

Out-of-state Comparison

GRAB				GRAB											
5946106T Muni		92 Report	93 Alert	99 Feedback	Page	13063A5C Muni		92 Report	93 Alert	99 Feedback	Page 1/11	Description: Municipal			
MICHIGAN ST TAXABLE-SCH LN-SER A				94 Notes	CALIFORNIA ST TAXABLE-VAR PURP 3				94 Notes	97 Settings	CUSIP 13063A5C4				
Ticker MIS		Cpn 2.650	Maturity 04/15/2015	C	Ticker CAS		Cpn 5.450	Maturity 04/01/2015	Dated 04/28/2009	State CA					
21) Municipal Bond		22) Series		23) Issuer Description		21) Municipal Bond		22) Series		23) Issuer Description					
Municipal Bond Information				Municipal Bond Information				Trading Information							
1) Bond Info		Issue Type		GENERAL OBLIGATION UNLTD		1) Bond Info		Issue Type		GENERAL OBLIGATION UNLTD		1st Settle Dt		04/28/2009	
2) Addtl Info		Ult Borrower		State of Michigan		2) Addtl Info		Ult Borrower		State of California		Next Settle D		02/20/2014	
3) Involved Parties		Maturity Type		NON-CALLABLE		3) Involved Parties		Maturity Type		M-W CALL		Int Accrual D		04/28/2009	
4) Var Cpn Info		Ext Redemption		NONE		4) Var Cpn Info		Ext Redemption		NONE		1st Coupon D		10/01/2009	
5) Credit Enhance		Coupon		2.650 FIXED		5) Credit Enhance		Coupon		5.450 FIXED		Week of Sale		04/20/2009	
6) Credit Ratings		Prc/Yld @ Iss		100.000/2.650		6) Credit Ratings		Prc/Yld @ Iss		100.618/5.326		Award		04/22/2009 11:22	
7) Call Sched & ERP		Coupon Freq		SEMI-ANNUAL		7) Call Sched & ERP		Coupon Freq		SEMI-ANNUAL		First Trade		04/22/2009 14:30	
8) Put Schedule		Tax Provision		FED TAXABLE/ST TAXABLE		8) Put Schedule		Tax Provision		FED TAXABLE/ST TAX-EXEMPT		Make-Whole Information			
9) Sink & Est Sink		Credit Enhancement				9) Sink & Est Sink		Credit Enhancement				1st Call Date		04/28/2009	
10) Refunding Info		Bond Ratings				10) Refunding Info		Bond Ratings (Recent Changes)				Type		ANYTIME	
11) DES Notes		MOODY'S(Underlyi		Aa2		11) DES Notes		MOODY'S(Under		A1		Benchmark		TREASURY	
Quick Links		S&P'S		AA-		Quick Links		S&P'S		A		Spread (bps)		50.000	
31) TDH MSRB Trade		POS				31) TDH MSRB Trade		STA							
32) CACS Material Evt		POS				32) CACS Material Evt		POS							
33) CF Filings						33) CF Filings		STA							
34) CN Sec News						34) CN Sec News									
35) HDS Holders						35) HDS Holders									
66) Send Bond						66) Send Bond									
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9				Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9				Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9				Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9			
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CA and MI Considerations

- MI GO rated AA2/AA-; CA GO rate A1/A
- MI muni offered at 0.47; CA muni offered at 0.32
- AA credit normally yields less than A credit; investors demand extra yield to own
- Out-of-state laws may vary; need to know the laws
- Need to know county and city dynamics, Ex. Detroit bankruptcy & how it affected state bond sales along with other local municipalities
- Keep pace with political dynamics that could affect other states; Ex. NJ and “bridgegate”

CA Local Agency Obligations (Bonds, notes, warrants, etc.)

- (e) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- Examples-Certificates of Participation (COPs) and Variable Rate Demand Note (VRDN)

U.S. Agency Obligations

- f) Federal agency or United States government-sponsored enterprise (GSEs) obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- There is bi-partisan commitment to encouraging private capital support for housing while winding down Fannie & Freddie. Expect adoption of any reform a couple of years down the road.
- **Currently allowable: FFCB, FHLB, FHLMC, FNMA, Farmer Mac, AID, TVA, & PEFCO**

Allowable GSE websites

- FFCB www.farmcreditfunding.com
- FHLB www.fhlb-of.com
- FHLMC www.freddiemac.com
- FNMA www.fanniemae.com
- Farmer Mac www.farmermac.com
- AID www.usaid.gov
- TVA www.tva.gov
- PEFCO www.pefco.com

Agency: Sector Overview

- More demand versus supply in the current environment.
 - Difficult to find relative value versus Treasury notes in short maturity Agencies.
 - Credit curve starts to have relative value beyond 3 year maturity point.

- In our view, despite repeated rumblings from both houses of Congress, both Fannie Mae and Freddie Mac will remain in conservatorship over an intermediate time frame (2-5 years).

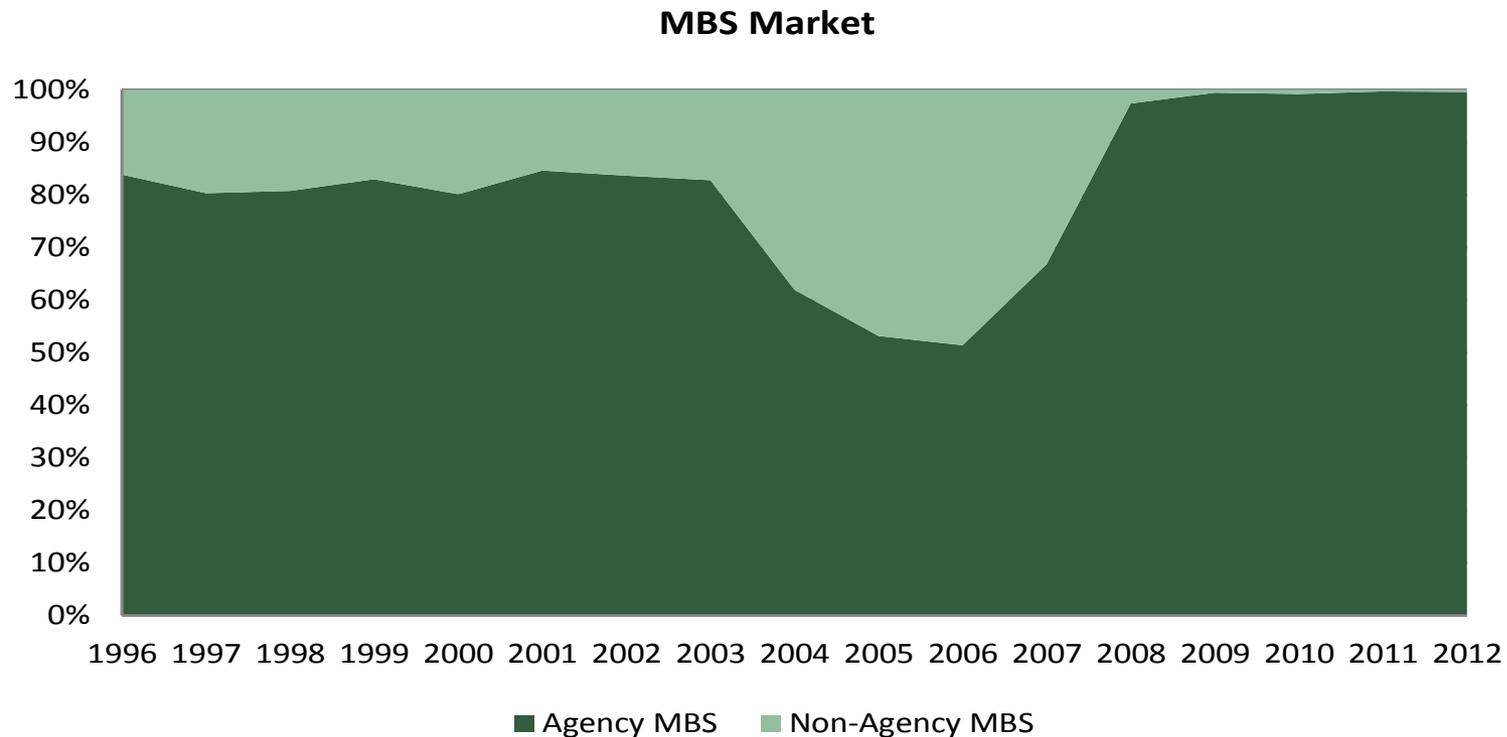
- WSJ article (2/11/13 by Nick Timiraos) recently highlighted private investors, with a vested interest in the equity of both entities, challenging the conservatorship status without the ability to build capital.
 - All profits flow to US Treasury
 - Expect the above legal challenge to play out slowly

- Private investors need to get involved in the securitized MBS market.



Securitized MBS Market – Non Agency Market Insignificant

Banks do not appear poised to take up a leadership role (and even if they did a long way to go to make an impact)



Agency: Bullet versus Callable Securities

BofA Merrill Lynch 1-5 Year Agency Indices	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
GVPB (1-5 bullet)							
# issues	194	298	315	280	262	238	195
Full Market Value	448,277	623,667	740,470	691,745	555,270	495,453	392,349
Effective Yield	3.71	1.59	1.59	0.94	0.61	0.44	0.79
OAS (vs govt)	54	81	19	13	26	7	6
Effective Duration	2.34	2.45	2.37	2.26	2.41	2.63	2.59
% total	74.1%	81.6%	77.6%	79.4%	78.1%	79.1%	76.8%
YTD return	7.814	8.628	2.528	3.536	2.617	1.522	0.034
GVPC (1-5 non bullet)							
# issues	316	265	350	363	338	315	305
Full Market Value	156,509	140,452	214,194	179,610	155,917	131,165	118,697
Effective Yield	3.84	1.85	1.67	1.25	0.74	0.46	0.94
OAS (vs govt)	64	107	69	23	38	5	9
Effective Duration	1.02	0.51	1.31	1.71	1.31	1.37	2.11
% total	25.9%	18.4%	22.4%	20.6%	21.9%	20.9%	23.2%
YTD return	6.001	4.836	2.136	1.238	1.668	0.845	(0.006)
Relative Comparison							
OAS Advantage (callable vs. bullets)	10	26	50	10	12	(2)	3
Effective Yield Advantage (callable vs. bullets)	0.13	0.26	0.08	0.31	0.13	0.02	0.15
YTD Return Advantage (callable vs. bullets)	(1.813)	(3.792)	(0.392)	(2.298)	(0.949)	(0.677)	(0.040)



Supranationals

- From CACTTC's 2014 Legislative Platform: Proposal 13 authorizes County Treasurers to purchase Washington Supranationals, or “World Bank” securities for diversification due to the diminishing supply of GSEs.
- AB-1933 was introduced on February 19, 2014 and will be incorporated into 56301(q) for all public agencies:
 - *(q) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated “AA” or better by an NRSRO and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.*
- The Washington Supras are headquartered in DC and have a AAA rating. The US is the largest shareholder.
- The Washington Supras are the following:
 - The World Bank (officially called the International Bank for Reconstruction & Development, IBRD)
 - International Finance Corporation (IFC)
 - Inter-American Development Bank (IADB)

Bankers' Acceptances

- (g) Bankers acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers acceptances may not exceed 180 days' maturity or 40 percent of the agency's money that may be invested pursuant to this section. However, no more than 30 percent of the agency's money may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

- **A BA is a common way to finance international trade. It is issued by a non-financial firm and guaranteed by a bank to make payment.**

Commercial Paper (CP)- Select Agencies

- (h) Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO).
- “Select Agencies” are defined as a “city, a district, or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same government body.”
- **CP is a short-term unsecured promissory note from the issuer to pay; 1st line of defense is the issuer’s stand-alone credit strength.**
- The overall amount of CP outstanding is around \$1 trillion since stabilizing in 2010. During the 2008 financial crisis, the CP market contracted sharply & was briefly shut down. Composition is shifting from asset-backed to non-financial issuance.
- CP is expected to remain expensive given the lack of alternatives for money fund investors. **Due to balance sheet constraints, more and more CP is being issued as 144a and is not a permissible investment (the opinion of the panelists).**

CP-Other Agencies

- “Other Agencies” are counties, a city and county, or other local agency “that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body.”
Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for “Select Agencies,” from the previous slide.

Negotiable CDs

- (i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's money which may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638.
- Negotiable certificates of deposit (NCDs) have an active secondary market.
- **Avoid conflicts of interest between “person of investment authority” and the entity.**
- **Limits are affected by AB 279. Maximum 30% must take into consideration any private placement monies.**

CD Placement Service

- 53601.8 ...May invest a portion of its surplus funds in *deposits* at a commercial bank, savings bank and loan assoc. or credit union that uses a private sector entity that assists in the placement of deposits...conditions apply.
- 53601.8 ...May invest a portion of its surplus funds in *certificates of deposit, provided that the purchase of certificates of deposit pursuant to this section, **Section 53635.8, and subdivision (i) of Section 56301** do not, in total, exceed 30 percent of the agency's funds that may be invested for this purpose...conditions apply.*
- AB 279: Limits investments in non-CD deposits to 10% per private sector placement entity. Limits *total* agency investment to 30% in deposits placed by private sector placement entities.

Repo/Reverse Repo Agreements

- j(1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.

- (2) Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

- **Repos are a key product for investors looking for liquidity or specific securities**

Reverse Repo conditions

- (j)(3) Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met...The conditions can be found in CDIAC's 2013 LAIG, pages 64-65.
- **Securities lending, like repo, is a type of secured financing transaction.** Securities lending provides lenders of securities with a low risk yield enhancement to their portfolios.

Medium-Term Notes

- k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, **issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.** Notes eligible for investment under this subdivision shall be rated “a” or better by a nationally recognized rating service. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency’s money that may be invested pursuant to this section.

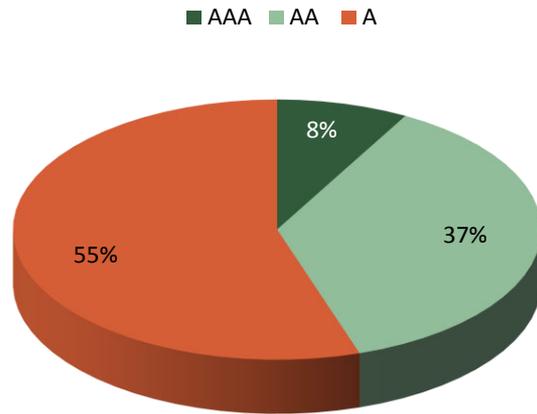
Corporate: Credit Tiers from 3 Major Rating Agencies

Standard & Poor's	Moody's	Fitch
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-
CCC+	Caa1	CCC
CCC	Caa2	DDD
CCC-	Caa3	DD

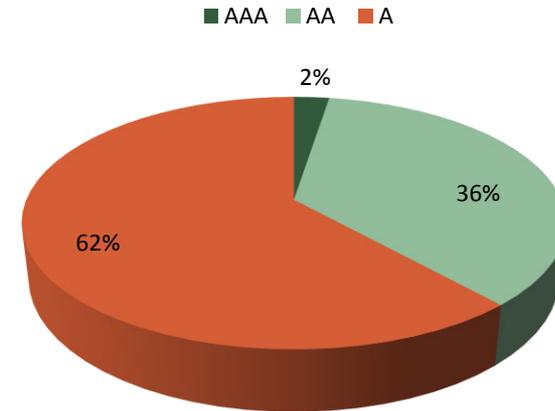
California Government Code requires an 'A' rating from one NRSRO.

Corporate: Highest Credit Tiers Contracting

BofA Merrill Lynch 1-5 Year AAA-A US Corporate Index, 12/31/06



BofA Merrill Lynch 1-5 Year AAA-A US Corporate Index, 12/31/10

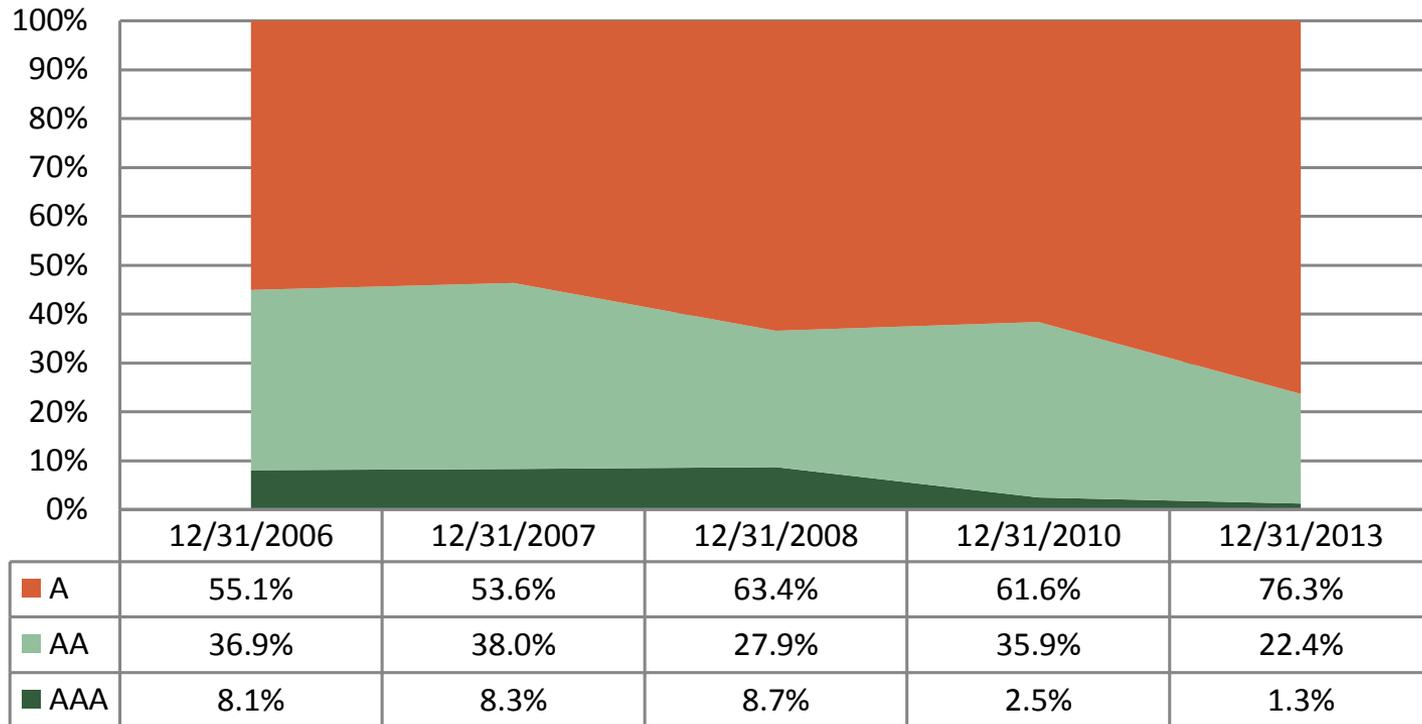


BofA Merrill Lynch 1-5 Year AAA-A US Corporate Index, 12/31/13



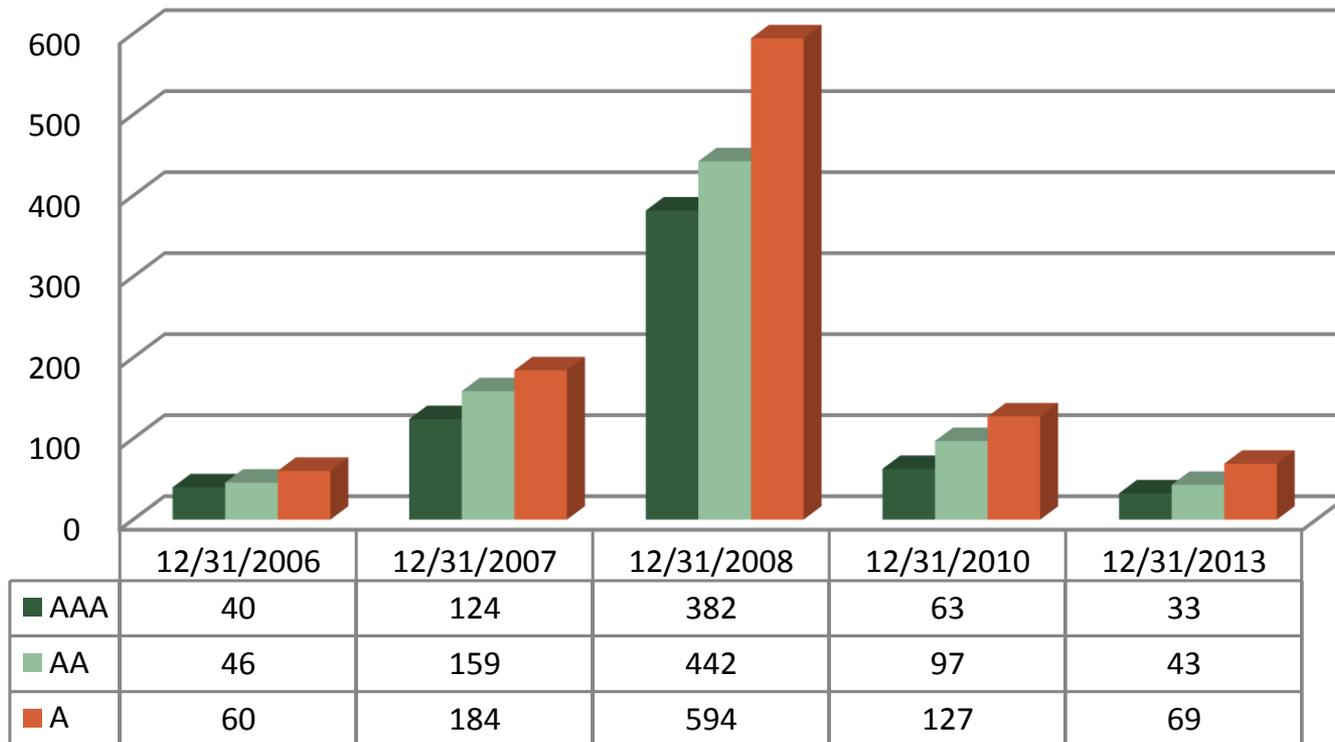
Corporate: Highest Credit Tiers Contracting

BofA Merrill Lynch 1-5 Year AAA-A US Corporate Index, Percent Changes



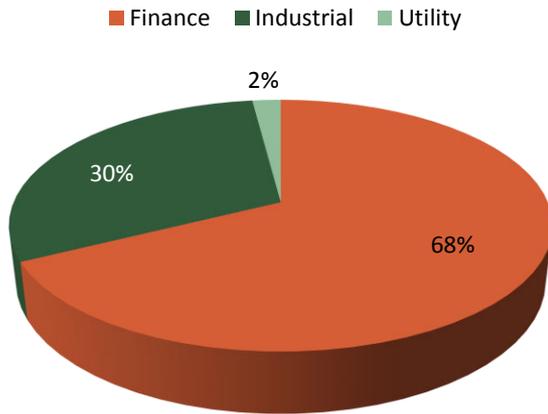
Corporate: OAS Valuations by Credit Level

BofA Merrill Lynch 1-5 Year AAA-A US Corporate Index

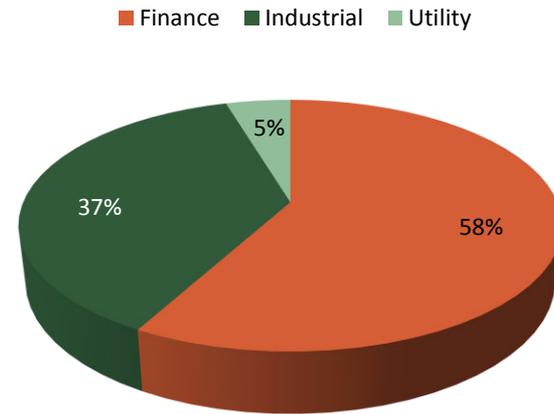


Corporate: Finance Sector Contracting

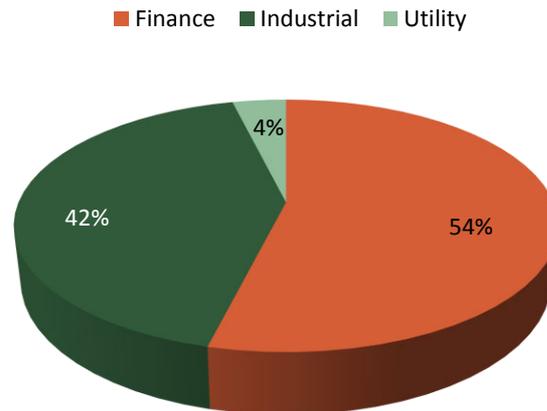
BoA Merrill Lynch 1-5 Year AAA-A US Corporate Index, 12/31/06



BofA Merrill Lynch AAA-A US Corporate Index, 12/31/10

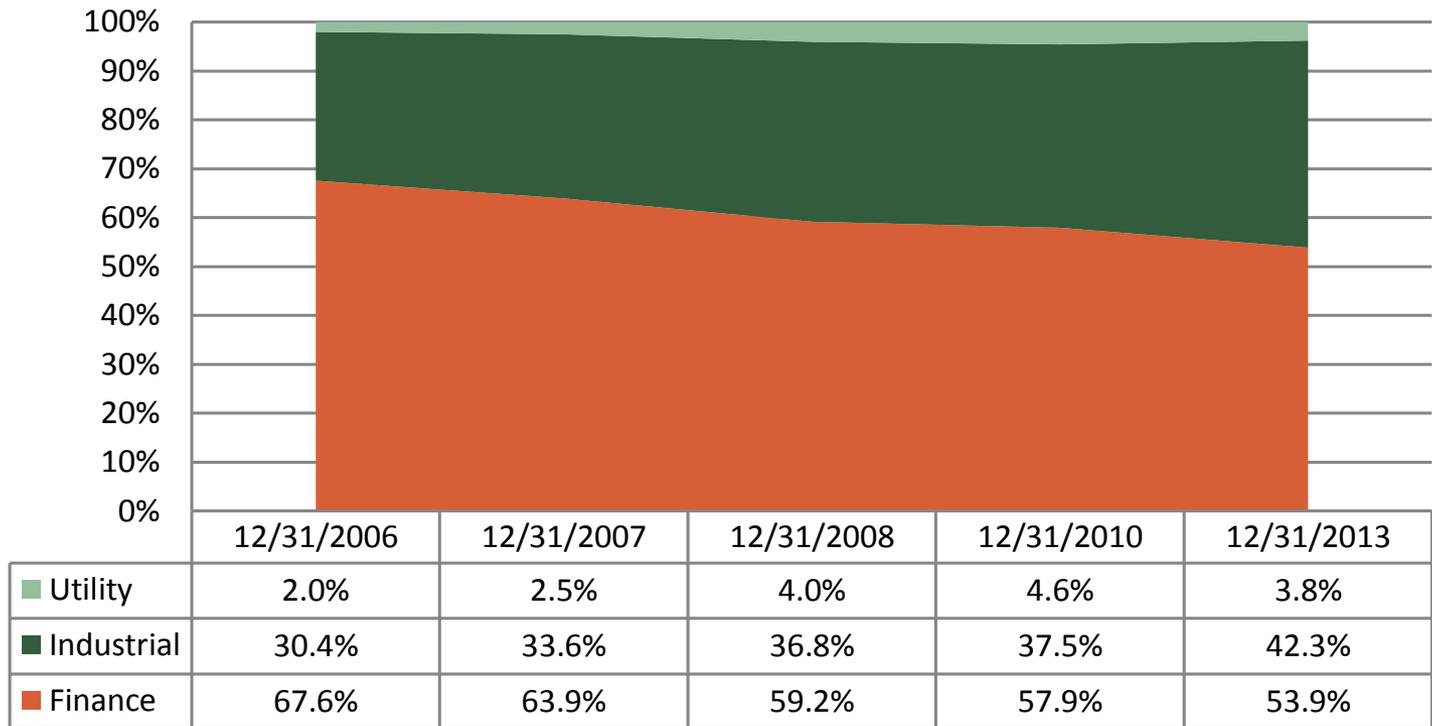


BofA Merrill Lynch 1-5 Year AAA-A US Corporate Index, 12/31/13



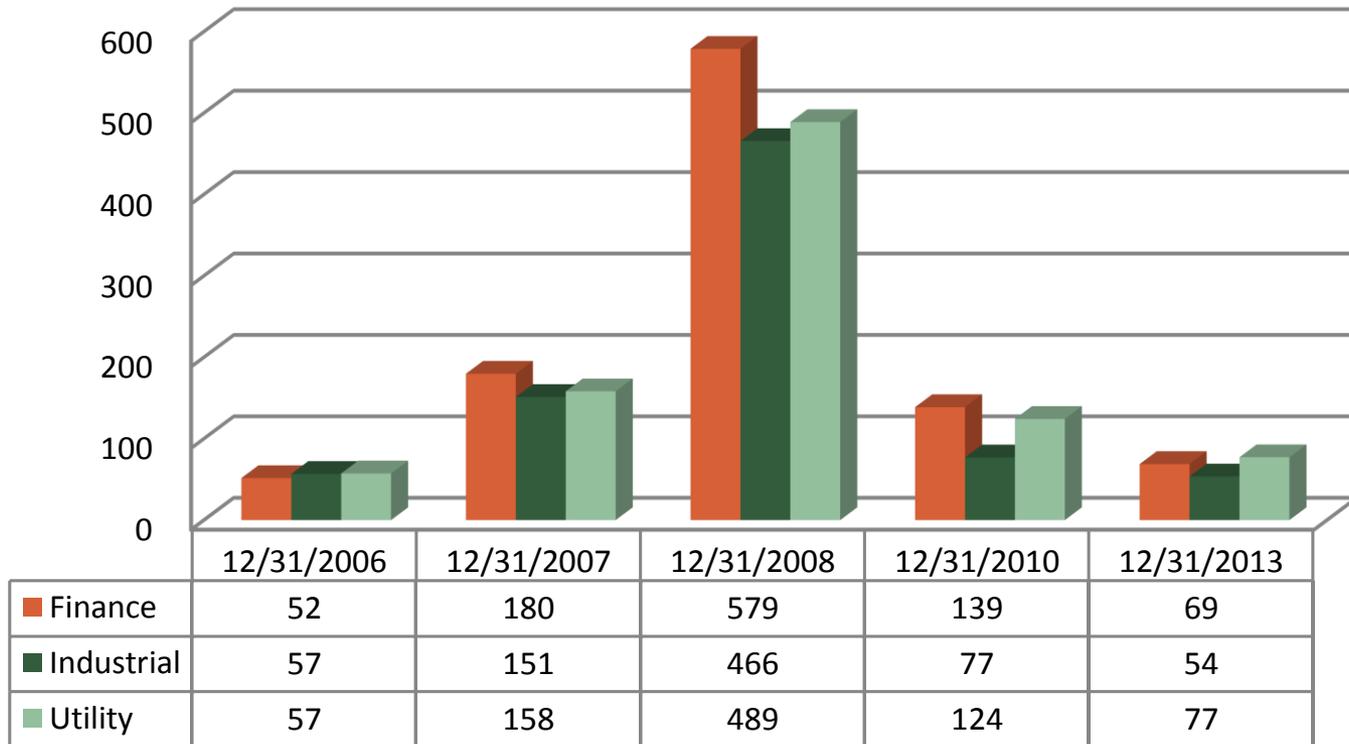
Corporate: Finance Sector Contracting

BofA Merrill Lynch 1-5 Year AAA-A US Corporate Index, Percent Changes



Corporate: OAS Valuations by Sector

BofA Merrill Lynch 1-5 Year AAA-A US Corporate Index



Code and Split-rated Corporates

- CA Code requires an “A” rating by **one** NRSRO
- Seen in an earlier slide, the composition of AAA-A, 1-5y space is: 1% AAA, 23% AA and 76% A.
- A split-rating is when the same bond is rated differently by the rating agencies. An example would be A-/Baa1.
- Consider pros and cons of split-rated corporates in widening your investment choices

Private Placement-144A

- SEC limits who can buy private placement securities to certain Qualified Institutional Buyers (QIBs).
- The QIB List, under Plan, Public Agencies are referenced as a QIB only as those who invest for the benefit of their employees.
- As a broker dealer, the risk is offering to a public agency a 144A security where the public agency does not meet the SEC's QIB criteria.
- See [CDIAC Issue Brief 13-05](#)

Mutual Funds & Money Market Funds

- (l)(1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630); (2) (2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940.
- **The funds' investments and maturities must be in compliance with CA Code 53601 or your IP if it's more restrictive.**

Bond Proceeds Accounts

- (m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, **may be invested in accordance with the statutory provisions governing the issuance of those bonds**, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

Collateralized Bank Deposits

- (n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- Collateral requirement is 120%.

Mortgage Pass-Through or Asset Backed Securities

- (o) Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "a" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "aa" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.
- Sponsors of ABS are the originators of the loans and receivables and can affect deal performance through asset selection and servicing. **The issuer and sponsor may be different. From a rating standpoint, there is some confusion as to how you look at the rating. Look at the sponsors rating as well.**
- Various ABS Issuers: Home Equity; Credit Card, Auto Loan, Equipment, Asset-backed; Student Loan; Airplane Receivables

Bank/Time Deposits

- 'Time deposit' is an interest-bearing bank deposit with a specified maturity date. It can be a savings account or a CD. Savings accounts usually require 30-days notice for withdrawal; CDs have penalties for early withdrawal.
- FDIC has a subject matter expert in the insurance division that *picks up the phone* to answer any questions about FDIC rules on deposit insurance account coverage.

County Pooled Investment Funds

- No maximum specified % of portfolio
- No minimum quality requirements
- All have oversight committees
- Post on their websites monthly investment results

Joint Powers Authority Pool

- (p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
- (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n), inclusive.
 - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

- LAIF is a voluntary program created by Statute; began in 1977 as an investment alternative for CA local governments and special districts.
 - LAIF is a part of the Pooled Money Investment Account (PMIA).
 - Monies placed in LAIF can not be transferred or impounded or seized by any state official or state agency.
 - The right to withdraw deposited monies upon demand may not be altered, impaired or denied in any way by a state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

Voluntary Investment Program Fund

- Deposit between 200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account (PMIA).
- There are currently no participants in this program.

Resources & Contact Info

- 2013 Local Agency Investment Guidelines (LAIG):
 - <http://www.treasurer.ca.gov/cdiac/LAIG/guideline.pdf>

- CACTTC 2014 Legislative Platform:
 - <http://www.cacttc.org/assets/cacttc%202014%20platform%20-%20adopted%20-%20amended.pdf>

- PMIA/LAIF Performance Report:
 - http://www.treasurer.ca.gov/pmia-laif/performance/PMIA-LAIF_perform.pdf

- FDIC: <http://www.fdic.gov/>

- Contacts: William Dennehy, Chandler wdennehy@chandlerasset.com & Deborah M. Higgins debbie@higginscapital.com

Disclosures

The information provided herein is for informational purposes only and should not be construed as a recommendation of any security, strategy or investment product, nor as an offer or solicitation for the purchase or sale of any financial instrument. Any information or data used in presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. This presentation contains the current opinions of the author, which are subject to change without notice. Any statements concerning financial market trends or future forecasts are based on current market conditions, which will fluctuate. Past performance is not indicative of future results.

Questions & Answers

Thank You